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## THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI #5813-82  
15 July 1982

MEMORANDUM FOR: Director of Central Intelligence

FROM:

  
National Intelligence Officer for Economics

SUBJECT: NSC Meeting on Issues of US-West European Relations

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1. The NSC meeting apparently will be only for discussion of the issues, not for decision. The set of papers for discussion available are nearly identical to those you were given on Tuesday that were initially prepared for a SIG meeting which never took place. State and NSC officials apparently are drafting brief summaries independently. These will not have been discussed on an interagency basis. They will be added to your book if and when received.

2. The papers include rough outlines of some policy options on general style and approach to the Europeans and of some options on steel and agriculture to help focus the discussion. They are generally well done and we have no major problems with them individually. They provide little overall perspective, however, on US-West European relationships and on the factors which influence European behavior. My memo The Crisis in US-West European Economic Relations is an attempt to provide some cross-cutting perspective.

3. Attached are your Talking Points for the meeting. As per your request, they focus on the reaction to and impact of US sanctions and on the possible steps the Polish government may take July 22nd to ease martial law. We have no unique information or insights on the other specific issues.

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Talking Points: US-West European Relations

1. The current crisis in US-West European relations is caused by a combination of:

- o Normal economic issues (on steel, agriculture, textiles, etc.), some of which are long standing.
- o Adverse economic trends--recession, high interest rates, high unemployment.
- o Major differences on East-West issues.
- o Problems in communication and timing.

2. Our reporting indicates that some European leaders, especially Chancellor Schmidt and President Mitterrand, are genuinely upset about US and West European relations.

- o In Germany, the government made a major point of this week's formal agreement with the Soviets on the credit package to finance German pipeline equipment. Terms include government insurance for 85% of the contract, 7.8 interest, and 8 years to repay. The Germans used the occasion to talk about "broadening economic relations with the USSR." Schmidt and Lambsdorff will be here next week arguing strongly that the US should change its mind.
- o In France, the government is being uncooperative with the US in a number of areas, including refusal to discuss control of credits to the East in NATO.

3. It is ironic that the alliance is so divided on East-West issues at the very time when the Soviet Bloc is in serious economic trouble.

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- o The USSR is facing its fourth consecutive bad harvest--grain production will be less than 175 million tons; Moscow will import its handling capacity of 50 million tons a year.
  - o Soviet industrial growth has slowed to a crawl and production of key products, like steel, is stagnant or falling. Debt and credit problems are forcing the USSR and the East European countries to make painful cuts in industrial imports, which will further worsen an already bad economic situation.
4. There are both political and economic reasons for the differences with our allies on East-West economic relations.
- o In spite of Soviet expansionism and even the events in Poland, our European allies are unwilling to abandon the 1970s policy of using East-West economic links as a stabilizing element in East-West relations.
  - o The very economic sectors producing goods most needed by the Soviet Bloc--such as grain and steel--are among the most depressed in the major Western supplying countries (for example, US grain producers and West European steel producers).
5. I now want to turn to our intelligence about the key East-West issues, especially the pipeline.
6. Briefly, this is what we know about Soviet and West European actions in the wake of our decision on sanctions on oil and gas equipment.
- o The Soviets are putting strong pressure on the European companies to deliver the turbines containing GE-designed rotors by threatening to cancel the contracts, to invoke various

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nonperformance penalties, and to turn to Soviet-built equipment. At a recent meeting with the companies, Moscow concentrated on delivery of the turbines containing the rotors shipped by GE to Europe before December.

- o But Moscow clearly wants the GE turbines and has given the companies at least another month to decide what to do.
- o The European governments, although still leaving room for maneuver, appear to be moving cautiously from rhetoric to active efforts to negate the US sanctions. In particular, they are anxious to prevent the US from establishing the precedents of extraterritoriality and retroactivity. London has a specific law allowing it to order British firms (and US firms on British soil) to disregard US laws. The other governments have no such specific administrative powers, but all are seriously considering challenging the US measures, or simply encouraging the European companies to ignore the US sanctions.

7. As to the impact of the sanctions decision on construction of the Yamal pipeline and on development of the Soviet gas industry, we have examined this question in great detail and identified many possible scenarios, but there is still a great deal of uncertainty about the outcome.

- o The Yamal pipeline is only one of six major gas trunk lines being constructed during 1981-85.
- o The gas which is to go through these lines is essential to provide any increase in Soviet domestic energy supplies and to prevent a substantial decline in hard currency earnings.

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- o The supply of turbines is the principal likely bottleneck to this pipeline development.
- o The little we know about Soviet production of turbines suggests that it will probably fall short of needs.
- o The domestic and export lines are indistinguishable for over half their length, since they are built parallel, and domestic or imported compressor equipment can be used on any of the lines.
- o In any case, a full complement of compressors is not necessary to deliver a large volume of gas. Only one-third of the designed compressor power on a line, for example, can provide about two-thirds of maximum gas throughput. This fact allows the Soviets considerable flexibility.

8. Our current judgment is that Moscow will meet its gas delivery obligations to Western Europe on a priority basis, even if this is at the expense of their domestic gas consumption.

- o There is little question that they will give a very high priority to the rapid expansion of their own gas equipment industry.
- o In the meantime they will get whatever equipment they can from Western Europe, and no doubt try to create frictions within the alliance in the bargain.

9. We have also reviewed our information on the possible easing of martial law in Poland on 22 July--Poland's national day.

- o Failure of the regime to make even a moderate gesture would be stunning proof of the incapacitation of the Polish leadership.

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- o According [REDACTED] there has been a heated debate within the leadership about what steps can safely be taken to ease martial law, but there has probably not been a final decision yet. Apparently Jaruzelski did not address the subject yesterday at the Party Central Committee meeting. His next opportunity comes next Wednesday when he speaks to the parliament.
- o Jaruzelski is cautious and indecisive. The Soviets are pressuring him to stand firm through Soviet press commentary criticizing Solidarity and the Polish Church. [REDACTED]
- [REDACTED]
- o The range of options being considered would not constrain the regime's ability to control popular activity and to use repressive measures. Some of the possible actions are:
- Probably, releasing some of the approximately 3,000 internees who are still being held without charge. (The release of Walesa or any of the top Solidarity leadership, however, does not appear to be under serious consideration.)
  - Making symbolic changes in martial law, while retaining most of its specific features.
  - Less likely, declaring an amnesty for some of the 2,000 who have been jailed for martial law offenses or for the approximately 4,000 who are awaiting trial.

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